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KORN/FERRY INTERNATIONAL

Board of Directors

Annual Study

Insurance Industry

Supplement 198

A Publication of Korn/Ferry International

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Library of Congress
Catalog Card No. 78-643541
HD 2745.63a 658.4/2

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BOARD OF DIRECTORS ANNUAL STUDY

For 10 consecutive years, Korn/Ferry International has surveyed the board practices and policies of America's largest industrial and service corporations. In November, 1982 we again invited 50 of the largest insurance companies as well as a cross-section of other life, casualty and combined life and casualty companies to participate. We are pleased that 56 responded of which 42 have assets over $2 billion. Because we believe it is beneficial for insurance companies to be able to compare and evaluate their board practices with others in their industry, we have once again isolated their responses in this special supplement to our Tenth Annual Study.

Insurance companies continue to pay their outside directors well below the average of all responding companies ($13,950 per year compared to $16,990). And although the number of hours they devote to board business has been steadily decreasing and is below the average for all respondents, their hourly rate still lags behind ($130 compared to $138). Moreover, insurance director fees appear to have peaked since the number and amount of increases are on the decline. Only 39 percent of the insurance respondents increased compensation for their outside directors this past year, considerably below the 53 percent that reported raising fees in last year's study. The amount of the increase is also considerably lower – $2,750 compared to $4,170 last year.

The insurance respondents again lead all others in offering compensation plans that allow their outside directors to defer board fees until retirement. They are also among the leaders in paying retirement benefits to their outside directors.

Insurance companies have greater numbers of women and ethnic minorities represented on their boards than most companies and most are drawn from sources where they have gained considerable management experience. Women are primarily senior executives of other companies, academicians

and former government officials. Minorities are generally senior executives of other companies and academicians. Insurers also lead in seeking outside directors from the academic community. Sixty-six percent of the insurers report academicians on their boards, the highest percentage of any group responding.

We hope you will find these as well as the detailed results outlined in this special supplement meaningful and useful to your board. We welcome your suggestions on how we might enhance next year's study.

Lester B. Korn

Richard M. Ferry

February 1983

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are directly related to the insurance industry respondents. (Table 1) Where appropriate, comparisons are made with all other responding corporations in our study.*

1. Size of Board (Table 2)

As they did last year, the boards of directors of the responding insurance companies average 16 members. This is three more than the average for all respondents; only financial institutions have larger boards, averaging 19.

2. Inside Director vs. Outside Director (Table 2)

Insurance companies average four inside directors – the same as all respondents. They average 12 outside directors – three more than the nine averaged by all respondents to the study.

The preference of insurance companies for outside director dominance on their boards continues to be strong as it is with all participants. Eighty percent prefer that the majority of their directors be drawn from outside the company and 46 percent prefer that a minimum of three-quarters of their directors come from outside (compared to 34% of all respondents).

3. Board Composition (Table 3)

Like the majority of corporations, the insurance companies select outside directors with strong managerial experience. The largest sources for outside directors of insurance boards continue to be senior executives of other companies (on 86% of their boards), retired executives of other companies (on 70%) and academicians (on 66%). The percentage of academicians is, in fact, the highest of any responding group in the survey. Moreover, insurers exceed the total respondent average in the percentage of attorneys who do not provide legal representation (39% vs. 34%), women (54% vs. 41%) and ethnic minorities (29% vs. 23%). (Table 3A)

*611 corporations responded to our Tenth Annual Study. Industrial companies account for 74 percent of the total of which 219 have sales over $1 billion. Banks and financial institutions account for 12 percent, insurance companies for nine percent and retailers for five percent.

Women and minority members of insurance boards generally are from functions where they have gained management experience. Women are primarily senior executives of other companies (30%), academicians (27%) and former government officials (13%). Likewise, minority directors are frequently senior executives of other companies (33%) and academicians (20%). (Table 3B) Insurance companies report the smallest percentage of attorneys who provide legal services (21% vs. 28% for all respondents).

4. Is the Chairman also the CEO?
Is the CEO also the COO?

Seventy-nine percent of the insurance respondents report that their chairman is also their chief executive officer -- up from 72 percent last year and identical to the percentage for all respondents. Forty-six percent state that their chief executive officer is also their chief operating officer. This is down from 53 percent last year, but still ahead of the 40 percent for all participants.

5. Committees (Table 4)

Of all respondents, insurance companies continue to make the greatest use of the executive and finance committees. Ninety-one percent have a standing executive committee compared to 78 percent for all respondents; 61 percent have a finance committee – considerably more than the 36 percent overall average. At 16 percent, they also have one of the highest percentages of corporate ethics committees, double the eight percent for all respondents.

Forty-six percent report a nominating committee this year, compared to the 57 percent reported by all participants. (Table 4A) Along with the compensation and executive committees, the nominating committee continues to play an important role in the management succession process. And, insurers make more use of the nominating committee in board committee appointments than any other responding group (65% vs. 58%).

Again this year, the finance committee is the largest, averaging seven directors. It also has the most inside directors – three. The audit and compensation committees are composed entirely of outside directors. All committees average four outside directors except the benefits which averages three. (Table 4B) Board committee appointments are reviewed annually by 96 percent of the insurance respondents. The finance committee is not only the largest, it also meets most frequently. This year it averages nine meetings, down one from last year. (Table 4C) Forty-three percent of the insurance respondents feel that the amount of time directors devote to committees is increasing while none thought it was decreasing.

6. Compensation (Table 5)

Ninety-three percent of the insurance company respondents compensate their outside directors on an annual and per meeting fee basis, the largest percentage of all responding companies to use this method for the third consecutive year. Only two insurance companies pay an annual fee only and, this year, none reported paying a per meeting fee only.

– Annual and Per Meeting Fee (93% of the respondents)

The average total yearly compensation for outside directors of insurance companies using this method rose slightly this year to $13,950 from $13,140 last year. It still lags significantly below the $16,990 average for all respondents. The components of this total compensation include a $9,900 average annual fee and a $613 per meeting fee. (Table 5A)

The "upper quartile average," included for comparative purposes, is also up somewhat this year to $22,920 from $22,640 last year. But, it is also considerably below the $26,500 average for all respondents. (Table 5B)

– Annual Fee Only (4% of the respondents)

The two companies that fall in this category pay an average annual fee of $6,000. This is the same as last year and is the lowest annual amount of any of the respondents using this method of compensation.

7. Committee Compensation

Eighty-nine percent of the responding insurance companies compensate their outside directors additionally for serving on a committee. Of these, 68 percent pay a per meeting fee only. Twenty-six percent pay an annual plus per meeting fee and six percent pay an annual fee only for committee service.

Among those that pay a per meeting fee only, fees for committee members range from an average of $300 per meeting for the benefits committee up to $530 for the public affairs committee. Members of the executive committee earn the highest compensation among those that pay an annual plus per meeting fee, averaging $4,250 per year. Committee chairmen are generally compensated at a higher rate than committee members. Sixty-three percent of the insurance company respondents annually review board committee fees.

8. Additional Compensation Information (Table 6)

Board members are compensated even though they do not attend board meetings by 89 percent of the insurance respondents. However, almost all (92%) limit that compensation to the annual fee only.

Thirty-nine percent of the insurance company respondents increased compensation for their board members during the past 12 months. This is significantly below the 53 percent that reported raising board fees in last year's study. The amount of the increase is also considerably lower – $2,750 vs. $4,170 last year. Thirty percent contemplate raising board fees during the next 12 months, projecting an even lower annual increase of $1,630. Ninety-one percent believe that their outside directors are adequately compensated.

The highest paid outside insurance company director received, exclusive of consulting fees, $21,420 – a modest seven percent increase over the $20,040 reported last year. While this is slightly below the $21,720 averaged by all respondents, the upper quartile average for insurance companies, at $39,460, is considerably higher than the $36,550 overall average. Once again, as it was last year, it is exceeded only by industrials with sales over $3 billion. (Table 6) Eighteen percent of the insurance respondents have directors who also receive consulting fees.

As they did last year, insurance companies lead all other respondents in offering a compensation plan that allows outside directors to defer board fees until retirement. Seventy percent now offer such a plan, up from 63 percent last year. Insurers also are among the leaders in offering retirement plans with 20 percent doing so. Other benefits commonly included in their compensation plans include travel expense reimbursement (86%), directors liability insurance (75%), matching educational gifts programs (50%) and accident insurance (43%). Forty-five percent invite the spouses of outside directors to attend special board functions. And 32 percent cover travel expenses for the spouses, a high for the study.

9. Board Practices and Policies (Table 7)

The boards of insurance companies for the sixth consecutive year meet an average of seven times per year, one less than the average for all respondents. Thirty-nine percent hold at least one of these meetings away from their headquarters office or a major facility city and five percent hold at least one outside the country during the year.

Over the past few years, the number of hours insurance directors spend on board business has been steadily decreasing. This year they reported an average of 107 hours – down a substantial 16 hours from last year and down 23 hours from two years ago. This is also considerably below the 123 hours averaged by all respondents. (Table 7A) But, in spite of the fact they they work fewer hours, their hourly rate of $130 is below the average for all participants of $138 because their overall compensation is so much lower.

Thirty-nine percent of the insurance respondents had an outside director resign from the board during the past year, primarily due to retirement according to 64 percent. Sixteen percent added new inside directors and 46 percent added new outside directors. They continue to identify and select new outside directors predominantly by the traditional and informal means of recommendation by the chairman and/or other board members. Use of the formal nominating committee, however, continues to be strong, cited by 52 percent. (Table 7B)

When asked to select the primary considerations in asking outside directors to sit on their boards, insurers overwhelmingly stated corporate experience (82%). Specific related experience and functional experience were next, cited by 38 percent each. Prestige was cited by 13 percent of the insurance respondents. (Table 7C)

Prospective directors declined an invitation to serve on the boards of 21 percent of the insurers. (Table 7D) Most (75%) cited the time commitment involved as the major reason.

Fifty percent of the insurance respondents expect a board vacancy during 1983 – more than any other group responding to the survery.

Ninety-six percent permit their chief executive officer to sit on outside public corporate boards and 93 percent allow other senior executives to do so.

Mandatory retirement policies are in effect at 86 percent of the insurance company respondents. The average retirement age is 68 for inside directors and 70 for outside directors.

10. Issues (Table 8)

Not surprisingly, financial results is the most important issue facing insurance boards. When asked to rank various issues in order of their importance, 96 percent ranked financial results first, second or third. Other important issues include strategic planning (cited 1st, 2nd or 3rd by 69%) followed by day-to-day operations (55%) and managerial succession (34%). The major changes foreseen by these companies over the next five years are the increasing importance of strategic planning and managerial succession and the decreasing importance of day-to-day operations. Mirroring their concern with financial results, the greatest amount of board meeting time (39%) is devoted to this issue.

TABLE 1 – PARTICIPATING COMPANIES

Fifty-six of America's major insurance companies participated in our Tenth Annual Study.

Size (Assets)	No. of Companies	%
Under $2 billion	14	25.0%
$2 billion and over	42	75.0%
TOTAL	56	100.0%

Stock Exchange	No. of Companies	%
New York Stock Exchange	17	30.4%
American Stock Exchange	2	3.6%
Over-the-Counter	13	23.2%
Mutual	19	33.9%
Private	5	8.9%
TOTAL	56	100.0%

TABLE 2 – PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	5	8	13
$2 billion and over	4	13	17
Average	4	12	16

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1978 Insurance Companies	1982 Insurance Companies	1982 All Companies Surveyed
Senior Executive (other companies)	86.7%	85.7%	88.2%
Retired or Previously Employed Corporate Officer	64.4%	53.6%	46.8%
Commercial Banker	60.0%	57.1%	33.6%
Attorney (provides legal services to the company)	24.4%	21.4%	28.2%
Academician	55.6%	66.1%	50.4%
Investment Banker	17.8%	17.9%	23.7%
Major Shareholder (not officer of the company)	20.0%	19.6%	30.4%
Attorney (does not provide legal services to the company)	51.1%	39.3%	33.7%
Former Government Official	22.2%	32.1%	27.2%
Female	46.7%	53.6%	41.2%
Ethnic Minority Representative	26.7%	28.6%	23.2%
Non-U.S. Citizen	13.3%	10.7%	17.0%
International Executive (American)	11.1%	8.9%	7.5%
"Professional" Director	N/A	17.9%	19.5%
Retired Executive (other companies)	N/A	69.6%	66.3%

FIVE YEAR TREND

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Sr. Executives (other companies)	30.0%	33.3%
Academicians	26.7%	20.0%
Former Government Officials	13.3%	6.7%
Attorneys (do not provide legal services)	10.0%	26.7%

TABLE 4—COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	1982 Insurance Companies	1982 All Companies Surveyed
Audit	98.2%	98.2%
Executive	91.1%	78.4%
Compensation	78.6%	86.3%
Finance	60.7%	35.7%
Nominating	46.4%	56.6%
Public Affairs	16.1%	11.8%
Corporate Ethics	16.1%	8.0%
Benefits	17.9%	32.9%

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	4	6
Compensation	0	4	4
Finance	3	4	7
Public Affairs	1	4	5
Nominating	1	4	5
Corporate Ethics	1	4	5
Benefits	1	3	4

4C. How many committee meetings were held during the past twelve months?

Committee	Average Number of Meetings
Audit	3
Executive	6
Compensation	4
Finance	9
Public Affairs	4
Nominating	2
Corporate Ethics	3
Benefits	2

TABLE 5—COMPENSATION

5A. Annual and Per Meeting Fee (92.9% of the Respondents)

Annual Fee Amount	%
Under $3,000	1.9%
$3,000-$6,999	30.8%
$7,000-$10,999	32.7%
$11,000-$13,999	9.6%
$14,000 and over	25.0%
TOTAL	100.0%
	(52)
Average Annual Fee	$9,900

PLUS

Amount Per Meeting	%
Under $250	5.8%
$250-$449	17.3%
$450-$599	36.5%
$600-$799	26.9%
$800 and over	13.5%
TOTAL	100.0%
	(52)
Average Per Meeting Fee	$613

EQUALS

Total Annual Compensation	%
Under $5,000	1.9%
$5,000-$6,999	7.7%
$7,000-$10,999	23.1%
$11,000-$13,999	25.0%
$14,000-$16,999	9.6%
$17,000 and over	32.7%
TOTAL	100.0%
Average Total Annual Compensation	$13,950

5B. Annual and Per Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$13,950	$22,920
Banks & Financial Institutions	$15,310	$24,650
Retailers	$16,950	$25,410
Industrials		
Under $200 million	$ 8,720	$13,000
$200 million-$399 million	$11,900	$16,800
$400 million-$599 million	$14,580	$24,800
$600 million-$999 million	$15,430	$22,300
$1 billion-$2.999 billion	$18,300	$25,300
$3 billion-$4.999 billion	$26,720	$30,620
$5 billion and over	$24,960	$34,610
Average	$16,990	$26,500

TABLE 6—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1982 for all board services exclusive of any consulting arrangement?

Amount	%
Under $7,000	5.4%
$7,000-$10,999	10.7%
$11,000-$16,999	25.0%
$17,000-$24,999	23.2%
$25,000 and over	28.5%
Unspecified	7.2%
TOTAL	100.0%
	(56)
Average	$21,420

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$21,420	$39.460
Banks & Financial Institutions	$20,700	$34,070
Retailers	$18,980	$27,500
Industrials		
Under $200 million	$11,120	$20,300
$200 million-$399 million	$16,940	$27,270
$400 million-$599 million	$15,750	$23,380
$600 million-$999 million	$17,460	$25,000
$1 billion-$2.999 billion	$24,090	$36,160
$3 billion-$4.999 billion	$30,580	$42,500
$5 billion and over	$36,200	$49,100
Average	$21,720	$36,550

TABLE 7—BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings, and travel?

Number of Hours	%
Under 40	7.1%
41 to 70	25.0%
71 to 130	35.7%
131 to 190	17.9%
191 to 250	7.1%
251 and over	3.6%
No Response	3.6%
TOTAL	100.0%
	(56)
Average	107 hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	107	186
Banks & Financial Institutions	114	174
Retailers	93	147
Industrials		
Under $200 million	85	138
$200 million-$399 million	109	169
$400 million-$599 million	107	162
$600 million-$999 million	112	187
$1 billion-$2.999 billion	145	198
$3 billion-$4.999 billion	152	217
$5 billion and over	176	226
Average	123	189

7B. How are outside directors located for the board?

	%
Recommendation and known to board members	80.4%
Recommendation and known to chairman	73.2%
Selection or nominating committee	51.8%
Recommendation and known to other corporate officers	35.7%
Referral from executive acquaintances	12.1%
Executive search	7.1%

7C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	82.1%
Specified Related Experience	37.5%
Functional Experience	37.5%
Prestige	12.5%

7D. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	21.4%
No	75.0%
No Response	3.6%
TOTAL	100.0%
	(56)

TABLE 8—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	60.4%	87.5%	95.8%
Strategic planning	10.4%	45.8%	68.7%
Day-to-day operations	19.1%	36.1%	55.2%
Managerial succession	12.8%	19.2%	34.1%
Mergers/Acquisitions	—	6.8%	20.4%
Government relations	—	4.5%	13.6%
Shareholder relations	2.4%	4.8%	11.9%
Corporate ethics	—	2.1%	10.6%
Public relations	—	—	6.7%

United States Offices

New York
Executive Offices
277 Park Avenue
New York, New York 10172
Telephone: (212) 371-3770
Telex: 236344

Los Angeles
Corporate Offices
1900 Avenue of the Stars
Los Angeles, California 90067
Telephone: (213) 879-1834
Telex: 691388

911 Wilshire Boulevard
Los Angeles, California 90017
Telephone: (213) 879-1834

Atlanta
260 Peachtree Street
Atlanta, Georgia 30303
Telephone: (404) 577-7542

Boston
50 Milk Street
Suite 1511
Boston, Massachusetts 02109
Telephone: (617) 423-0336
Telex: 951131

Chicago
120 South Riverside Plaza
Chicago, Illinois 60606
Telephone: (312) 726-1841
Telex: 283503

Cleveland
National City Center
1900 East 9th Street
Cleveland, Ohio 44114
Telephone: (216) 861-5656

Dallas
One Dallas Centre
350 North St. Paul
Dallas, Texas 75201
Telephone: (214) 651-1801

Denver
7800 East Union Avenue
Suite 740
Denver, Colorado 80237
Telephone: (303) 694-3062
Telex: 450281

Houston
1100 Milam Building
Houston, Texas 77002
Telephone: (713) 651-1834

Newport Beach
1300 Dove Street
Suite 200
Newport Beach, California 92660
Telephone: (714) 851-1834

Palo Alto
2 Palo Alto Square
Palo Alto, California 94306
Telephone: (415) 956-1834

San Francisco
The Transamerica Pyramid
600 Montgomery Street
San Francisco, California 94111
Telephone: (415) 956-1834

Stamford
Three Landmark Square
Stamford, Connecticut 06901
Telephone: (203) 359-3350
Telex: 236344

Washington, D.C.
1825 K Street, N.W.
Washington, D.C. 20006
Telephone: (202) 822-9444
Telex: 236344

International Offices

Brussels
209A Avenue Louise
B-1050 Brussels, Belgium
Telephone: (02) 649.94.67
Telex: (846) 24390

Caracas
Multicentro Empresarial Del Este
Edificio Libertador
Nucleo A, Pisa 15, Oficina A-155
Av. Libertador
Chacao, Caracas 1060, Venezuela
Telephone: (02) 32-21-11, 32-93-77
Telex: (395) 24608

Frankfurt
Ulmenstrasse 30
6000 Frankfurt/Main
West Germany
Telephone: 0611/728357-59
Telex: (841) 4189707

Guadalajara
Lazaro Cardenas 3043
Col. St. Jardines Del Bosque
Guadalajara, Jalesco
Telephone: 22-84-41, 22-84-93

Hong Kong
69, Wyndham Street
Eighth Floor
Hong Kong
Telephone: (05) 247356, 243683
Telex: (780) 66343

Kuala Lumpur
No. 43, Jalan Yap Kwan Seng
Kuala Lumpur, Malaysia
P.O. Box 2595
Telephone: 925140
Telex: (784) MA 31268

London
2-4 King Street
St. James'
London SW1Y 6QL, England
Telephone: (01) 930-5524
Telex: (851) 91 4860

Madrid
Calle Felipe IV, No. 9
Madrid 14, Spain
Telephone: (1) 410-4900
Telex: (831) 49062

Melbourne
35 Collins Street
Melbourne
Victoria 3000, Australia
Telephone: 03-654-4588
Telex: (790) AA 33157

Mexico City
Montes Urales 641
Lomas de Chapultepec
C.P. 11000 Mexico, D.F.
Telephone: (905) 540-6166
Telex: (383) 1771951

Monterey
Daniel Zambrano 525
Col. Chepe Vera
Monterrey, Nuevo Leon Mexico
Telephone: (905) 48-43-55.

Paris
23 Place Vendome
F-75001 Paris, France
Telephone: (01) 296.84.35
Telex: (842) 212686

Rio de Janeiro
Av. Nilo Pecanha 50
Conjunto 1417
20020 Rio de Janeiro, R.J. Brasil
Telephone: (021) 262-4367, 262-4516
Telex: (391) 1124250

Sao Paulo
Avenida Indianopolis 80
04062 Sao Paulo, SP, Brasil
Telephone: (11) 549-7133
Telex: (391) 1124250

Singapore
27-05 Shell Tower
50 Raffles Place
Singapore 0104
Telephone: 224-3111
Telex: (786) RS 26684

Sydney
167 Macquarie Street
Sydney
New South Wales 2000, Australia
Telephone: 221-2122
Telex: (790) AA 70375

Tokyo
AIU Building, 7th Floor
1-3 Marunouchi 1-Chome
Chiyoda-Ku, Tokyo 100, Japan
Telephone: (03) 211-6851
Telex: (781) J 23745

Zug
Weinbergstrasse 34
6300 Zug—Switzerland
Telephone: (42) 22-22-20